



## Statewide Email Rate

### Action Item

Recommendation: Approve rate proposal for statewide email.

### Overview

The Department of Technology Services (DTS) has enhanced its existing Exchange infrastructure as part of a larger effort to meet the statewide messaging needs of California's government agencies. At the September 27, 2006 meeting, the Board approved the DTS plan to publish planning rates to allow customers to begin to assess the value of the service. The planning rates represented changes to existing rates as follows:

- A \$2 reduction to the Base Mailbox rate brings it to \$6
- No Change to Storage Rate, but provide an additional tier at 500MB
- Increase the Blackberry rate to \$6.50 per user to recover costs
- Migration charged as a pass-through that could be spread over 24 months

This rate proposal (Appendix A) differs from the planning rates for the Storage and Blackberry charges. This rate proposal represents the formalization of the enhanced Statewide Email offering and will establish the formal rate levels and structure.

Central to this rate package is the proposal of a discounted Base Mailbox rate to encourage customer adoption of the service. The proposed discounted rate is expected to result in a one-time subsidization of the Base Mailbox product. Consistent with the DTS Rate Methodology, the financial implications of this temporary subsidization have been estimated and presented for stakeholder consideration in the rate proposal.

In addition to the Base Mailbox rate, the proposal also addresses the rates for Email Storage, Mobile Devices and the cost recovery mechanism for Migration of customer mailboxes to the Statewide Email service. The proposed rates are shown in the table on the following page.



Proposed Rates for Statewide Email			
Product	Rate	Billable Unit	Effective Date
Base Mailbox	\$6.00	/mailbox/month	1/1/2007
Storage	\$18.35	/GB months used	1/1/2007
Mobile Device	\$7.50	/user/month	7/1/2007
Migration	Pass-through of Actual Cost with payment spread up to 24 months		7/1/2007

## Summary of Service

The DTS Messaging service currently consists of two distinct email environments: Exchange 5.5 and Exchange 2003. The DTS is in the process of retiring the Exchange 5.5 product and recently enhanced the quality and features of Exchange 2003 to create the Statewide Email service. The following is a list of messaging products related to the Statewide Email offering:

**Base Mailbox** – The basic functionality expected of the standard email mailbox product: an address, calendar, tasks, web access, spam and virus protection.

**Email Storage** – The disk storage required to store customer mailbox data including Inbox, Tasks, Contacts, Calendar, Deleted Items, Sent Items and personal folders. Included in the service offering is a nightly backup of user mailboxes and public folders. Mailbox data backups are retained for 28 days. Individual departments are able to extend this retention policy, if needed.

**Mobile Device** – This service provides users the ability to work with wireless devices. Users are able to send and receive messages instantly, open and review attachments and calendar, and access contact information.

**Migration** – The DTS can provide consulting services to perform migration assessments and services for customers currently running Microsoft Exchange, GroupWise or Lotus Notes email systems.

## Summary of Proposed Changes

This rate proposal establishes a new rate structure for the Statewide Email offering and proposes the temporary subsidization of the base mailbox rate in order to promote the adoption of this shared service. The tables below compare the old rates and rate structure for email services with the proposed rates and rate structure for the enhanced

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offering under Statewide Email. As shown in the first table, the old rate structure bundles the mailbox and storage together into one charge and provides five monthly subscription choices based on mailbox storage thresholds. The effective rates of the two bundled components are \$8.05 for the Base Mailbox and \$26.60/GB of storage subscribed.

Current Rates and Structure	
Mailbox with Storage Tier	Monthly Rate (\$8.05/Mailbox + \$26.60/GB)
50 MB	\$9.38
100 MB	\$10.17
200 MB	\$13.37
1 GB	\$34.65
2 GB	\$61.22

The proposed rate structure unbundles mailbox and storage rates. This allows customers to pay for only the storage they use as a whole organization and simplifies billing to one Email Storage charge per customer. For the purpose of comparing rate levels, the current structure is shown unbundled in the table below.

Product	Comparison of Current and Proposed Rates				
	Current Rates		Proposed Rates		Effective Date
	Rate	Billable Unit	Rate	Billable Unit	
Base Mailbox	\$8.05	/mailbox	\$6.00	/mailbox	1/1/2007
Storage	\$26.60	/GB subscribed	\$18.35	/GB used	1/1/2007
Mobile Device	\$2.38	/user	\$7.50	/user	7/1/2007
Migration	Not Established		Pass-through of Actual Cost with payment spread up to 24 months		7/1/2007

## Additional Information for Each Proposed Rate

### Base Mailbox

The Base Mailbox rate was set using the Temporary Subsidization process of the DTS Rate Methodology. The table below provides a summary of the information required by the Temporary Subsidization Methodology. These requirements are discussed in the cited sections of the proposal:



Summary of Required Information for Temporary Subsidization	
<b>Policy Objective for Temporary Subsidization</b> (Section 2.3):	Promote customer adoption of Statewide Email Service
<b>Cost Recovery Objective</b> (Section 2.4):	Monthly Revenue should meet or exceed the Monthly Total Cost within 34 months
<b>Customer Adoption Assumption</b> (Section 2.5):	The DTS will be supporting 50,000 mailboxes by October 2009

Based on the assumptions stated above, the cost analysis indicates a monthly rate of \$5.54 per mailbox. However, the DTS is proposing a monthly rate of \$6.00 (see Section 2.10 for additional detail) in order to mitigate the risk of increasing the rate at a later date due to customer adoption being less than assumed or the addition of new features. The financial implications of this rate level are summarized below:

- With the \$6.00 rate, the DTS would achieve the Cost Recovery Objective at the volume of 45,000 mailboxes.
- The revenue to be collected through the Base Mailbox rate over the transition period is estimated to be \$1.4 million less than the Total Cost (Direct and Indirect Cost of Service) of the service. The estimated subsidization represents approximately 0.25 percent (quarter of one percent) of the Total Cost of all DTS services over the transition period. This would be the total one-time “subsidization” of the service.
- The revenue over the transition period is expected to exceed the Direct Cost of Base Mailbox product by \$1.2 million. Because Direct Cost is roughly the actual cost of the service, the \$1.2 million is a downward pressure on all other DTS rates because it is recovering Indirect Costs that no longer need to be recovered through other rates.

### Email Storage

The cost of providing the Email Storage product was analyzed in detail for this proposal and was found to be consistent with the \$18.35/GB Enterprise Storage rate that is currently published. Consistent with the DTS initiative to simplify and consolidate the management of storage services to internal and external customers, the DTS is proposing to eliminate any storage rates specific to email and instead use the Enterprise Storage rate of \$18.35/GB.

### Mobile Device

The current rate charged for the DTS Mobile Device product is \$2.38/User. This rate is only sufficient to cover the per user license costs for this product, leaving the staff, hardware and remaining software costs to be recovered through other rates. The DTS proposes to increase this rate to \$7.50/User, in order to align the rate for this product more appropriately with the cost to provide it.



## Migration

The DTS made the decision that it would not be appropriate to build migration costs into the base mailbox rate given the following factors:

- The potential for large variances in per mailbox cost for migration
- The DTS has current customers that do not require this service
- Migration costs are a one-time expense

The following table displays rough estimates of the Direct Costs of migration per mailbox assuming average complexity and mailbox synchronization.

	<b>Estimates of Mailbox Migration Costs</b>	
	<b>Source Email Environment</b>	
	<b>Exchange</b>	<b>Non-Exchange</b>
Consulting	\$25	\$45
Migration Licenses	\$12	\$12
DTS Migration Environment	\$5	\$5
<b>Total</b>	<b>\$42/mailbox</b>	<b>\$62/mailbox</b>

In addition to the direct costs shown above, there will be some amount of administrative fee or overhead charge as well. It is important to note that consulting and migration licensing costs are likely to vary widely from one customer to another and can be reduced significantly by use of a “clean” migration approach, which does not require that the data from the old mail system be migrated or synchronized into Statewide Email service.



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Appendix A